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Drawing Capital

Growth Investments in Big Tech Companies

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Growth Opportunities in Big Tech: The FANGMAN Companies

Presented by:

Sagar Joshi and Sean van der Wal



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Drawing Capital is an innovation-focused investment platform headquartered in Silicon Valley, CA.

Drawing Capital aims to capture the expansion of a technology-forward world by investing in leaders that we believe carry undervalued growth. Our expertise in finance and data science enables us to participate in investment opportunities in public markets not captured by passive investing.

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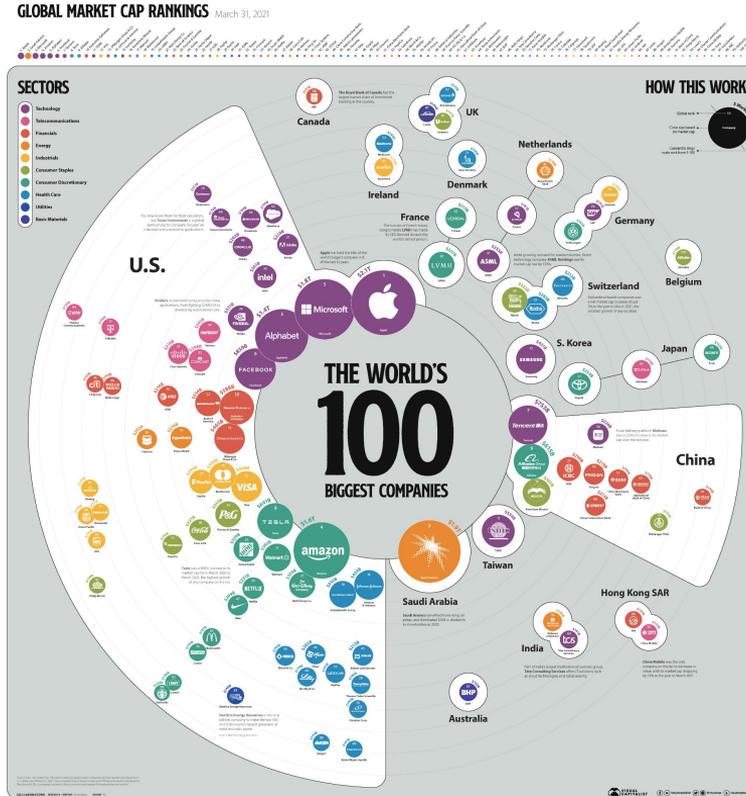


Summary & Resources

Historical Context & Rise of Large Technology Companies

- The top companies by market cap evolve over time, suggesting that change is the only constant over time.
- The FANGMAN acronym summarizes the leading large technology companies.

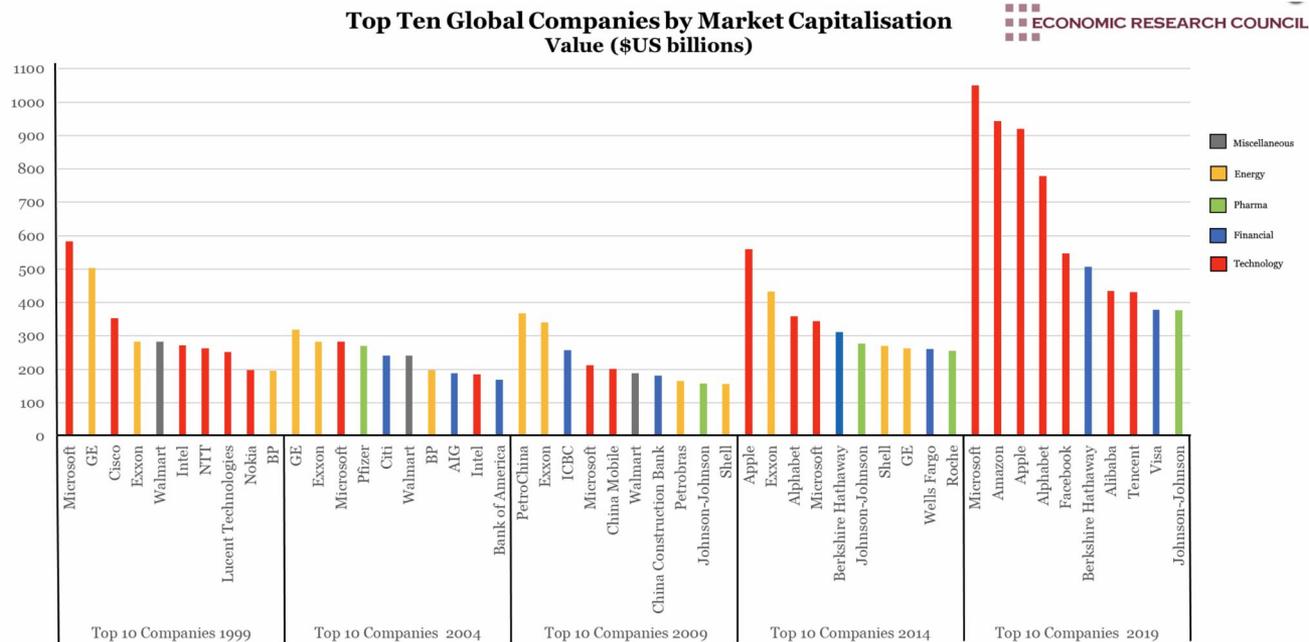
Visualizing the Largest Companies in the World



Data Source: Visual Capitalist, as of March 31, 2021. Any trading symbols, entities or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results. Source: <https://www.visualcapitalist.com/the-biggest-companies-in-the-world-in-2021>



Change is the Only Constant Over Time for Large Company Rankings



Source: ERC analysis of FT and Google Finance data via Visual Capitalist



There is a Big Shift in the Dominant Companies over Time.

- 1 In 1980, the biggest companies included the Sister 7 oil companies, auto companies, AT&T, GE, and IBM.
- 2 Fast forward 20 years to the year 2000, and “CIMQS” was a common acronym to describe leading companies at the time, such as Cisco, Intel, Microsoft, Qualcomm, and Sun Microsystems.
- 3 Fast forward another 20 years to today, and FANGMAN companies (Facebook, Amazon, Netflix, Google, Microsoft, Apple, and NVIDIA) account for nearly half of the QQQ ETF, which seeks to track the NASDAQ 100 Index.
- 4 Between the “CIMQS” and “FANGMAN” acronyms, Microsoft is the only overlapping company.
- 5 Social media companies like Facebook, LinkedIn, and Twitter are more than just social networks. They are broadcast networks that are used by hundreds of millions of people on a daily basis.



What is the “FANGMAN” Acronym?

- 1 Facebook (ticker: FB)
- 2 Amazon (ticker: AMZN)
- 3 Netflix (ticker: NFLX)
- 4 Google / Alphabet
(tickers: GOOGL and GOOG)
- 5 Microsoft (ticker: MSFT)
- 6 Apple (ticker: AAPL)
- 7 NVIDIA (ticker: NVDA)

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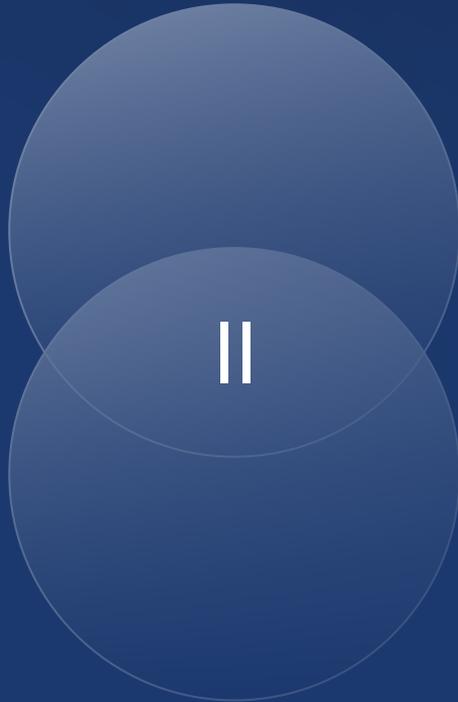


Inception to IPO and Beyond for FANGMAN Companies

Company	Founding Year	Year of IPO	Founding to IPO
Facebook	2004	2012	8 years
Amazon	1994	1997	3 years
Netflix	1997	2002	5 years
Google / Alphabet	1998	2004	6 years
Microsoft	1975	1986	11 years
Apple	1976	1980	4 years
NVIDIA	1993	1999	6 years

Data Source: Company Filings

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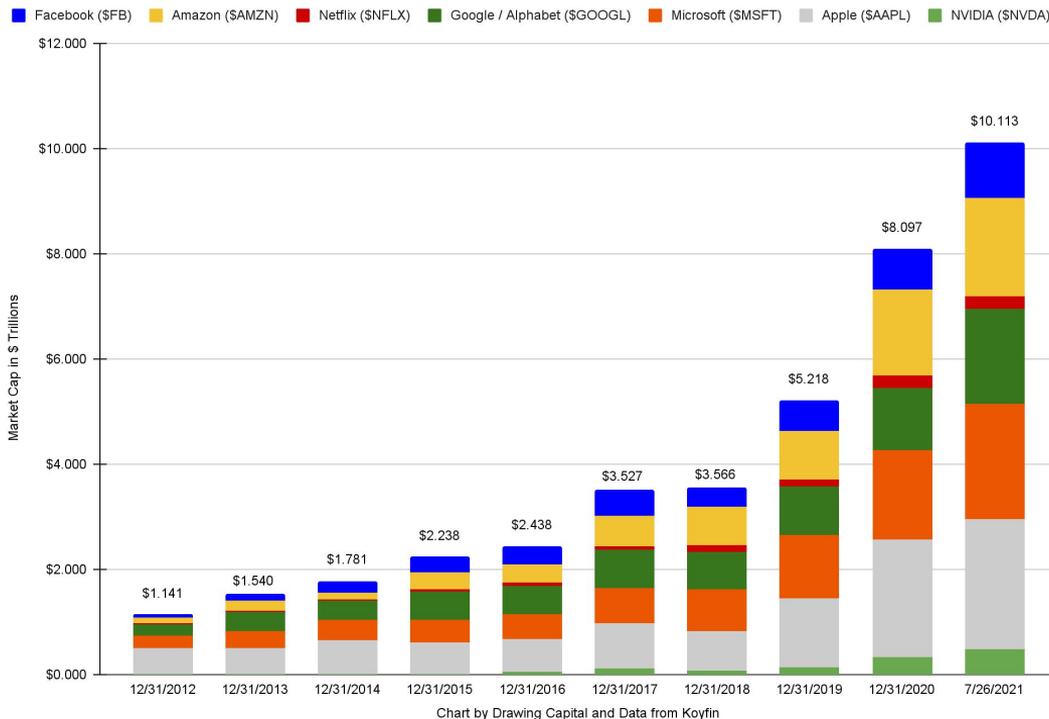


Size, Scale, and Scope of Big Tech Companies

- The market valuations of FANGMAN companies cumulatively reached the \$10 trillion milestone in July 2021.
- The market valuations of FANGMAN companies grew about 7x from 2013-2020.
- The 7 FANGMAN companies represent about half of the NASDAQ 100 Index and about one-quarter of the S&P 500 Index.

FANGMAN Company Market Valuations & The \$10 Trillion Milestone

Cumulative Market Caps of FANGMAN Companies Surpassed the \$10 Trillion Milestone in July 2021



Data Source: Koyfin. Companies or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.



Long Term Investments in FANGMAN Companies have been Profitable

~28%

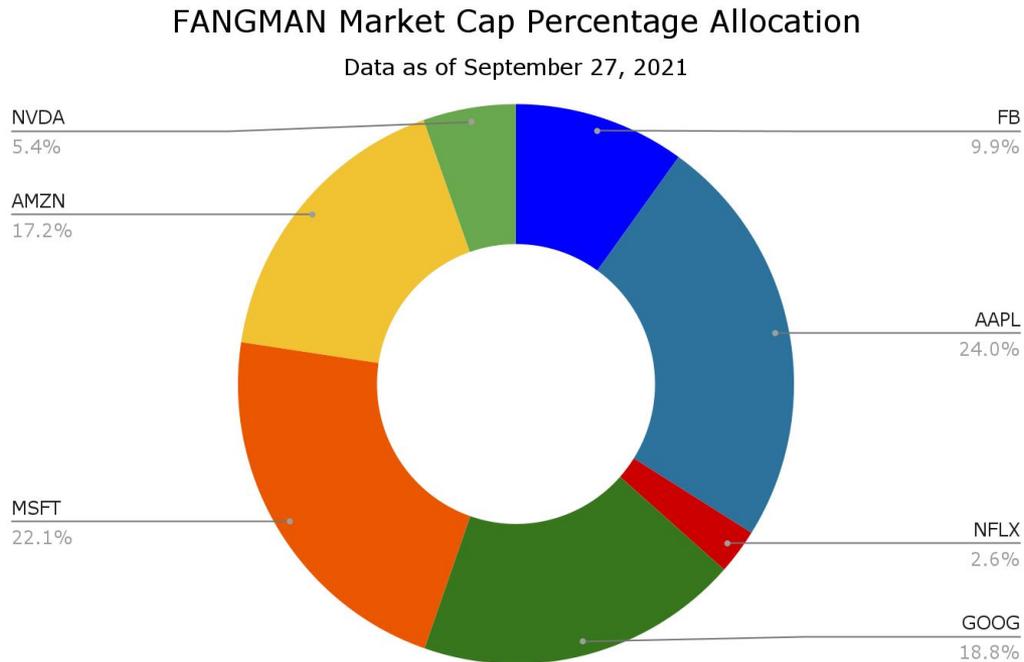
CAGR of Cumulative FANGMAN
Market Valuations, 2013-2020

~7x

Investment Multiple Gain of Cumulative
FANGMAN Market Valuations, 2013-2020



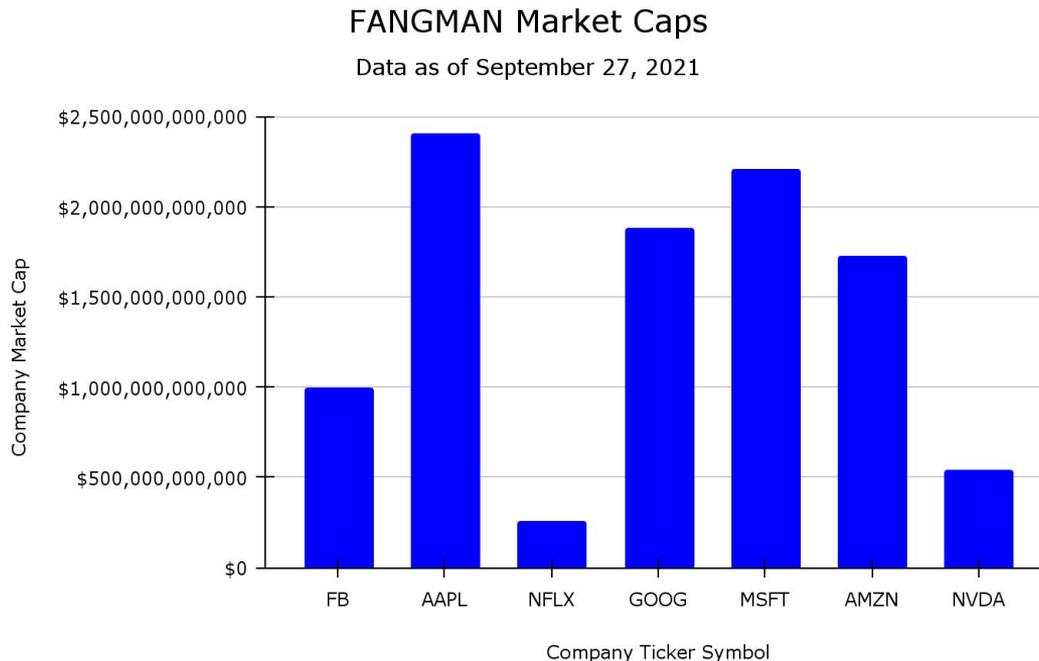
Composition of FANGMAN Market Valuations



Data Source: Koyfin. Any stock, options or futures symbols, companies or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.



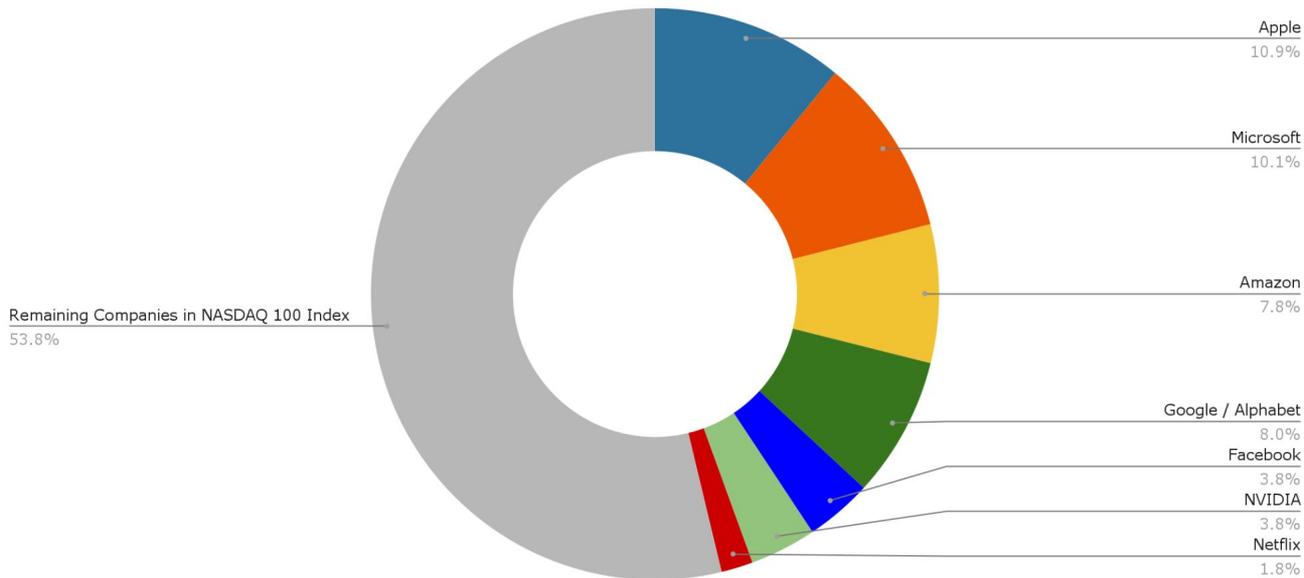
Apple is the Largest by Market Cap Among the FANGMAN Companies



FANGMAN Companies Represent about Half of the NASDAQ 100 Index

FANGMAN Percentage Allocation in NASDAQ 100 ETF (\$QQQ)

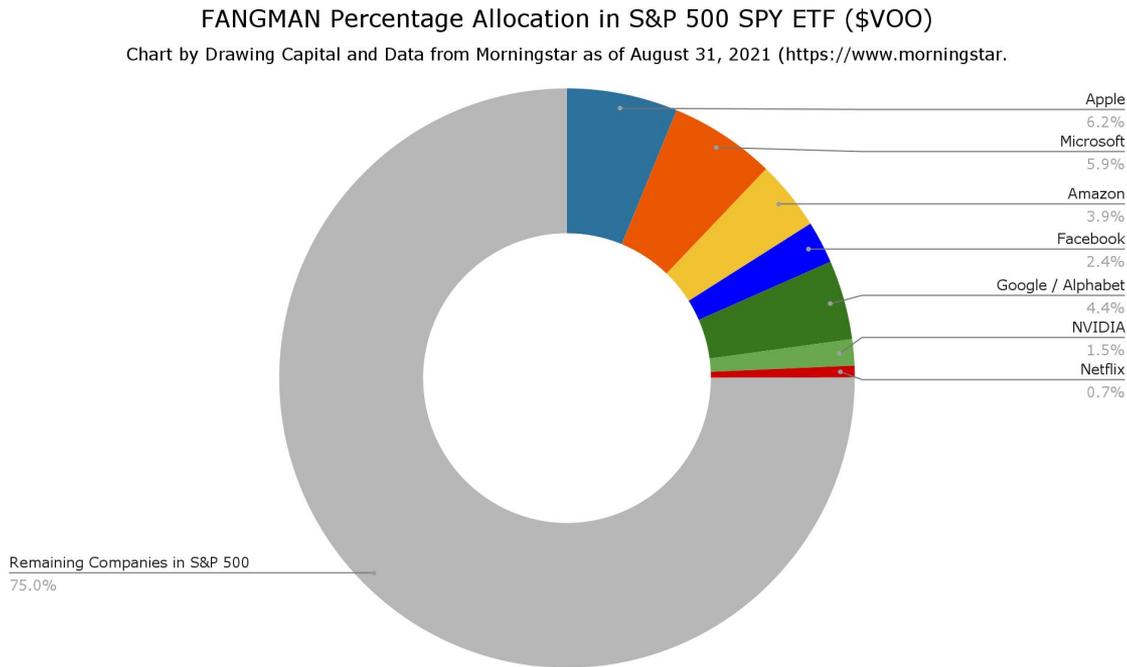
Chart by Drawing Capital and Data from Morningstar as of September 26, 2021 (<https://www.morningstar.com/etfs/xnas/qqq/portfolio>)



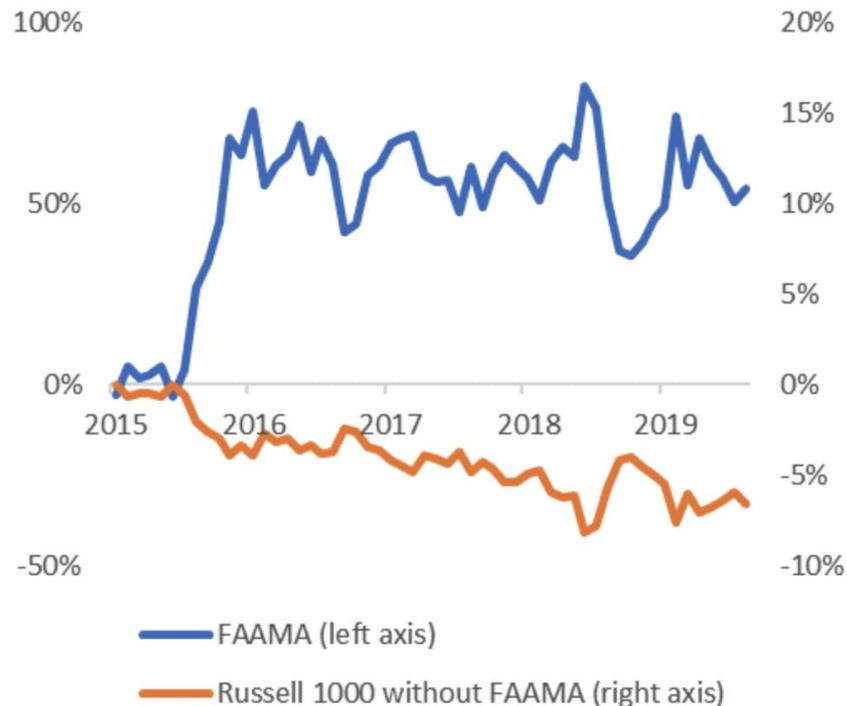
Data Source: Morningstar and Koyfin. Any stock, options or futures symbols, companies or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.



FANGMAN Companies Represent about 25% of the S&P 500 Index

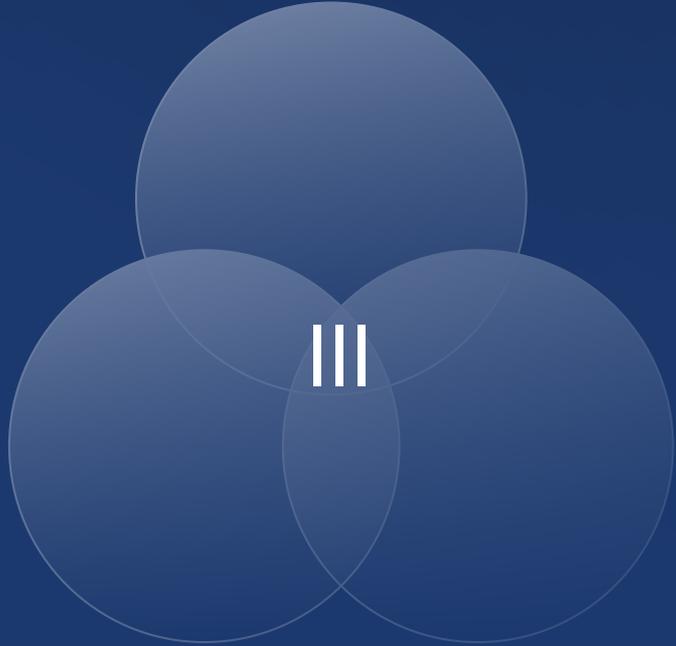


Big Tech Company Performance Has Been Instrumental to Index Performance



Data Source: Russell Investments. Any stock, options or futures symbols, companies or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.

Source Link: <https://russellinvestments.com/us/blog/could-the-tech-bubble-burst-again-how-todays-market-stacks-up-against-the-90s>



Historical FANGMAN Company Stock Price Performance

- Performance of FANGMAN stocks has historically been excellent.
- Over the past 10 years, FANGMAN stocks have delivered better performance than the S&P 500 Index.
- Among FANGMAN companies, NVIDIA has the most significant returns over the past 10 years.



Historical Stock Performance of FANGMAN has been Excellent

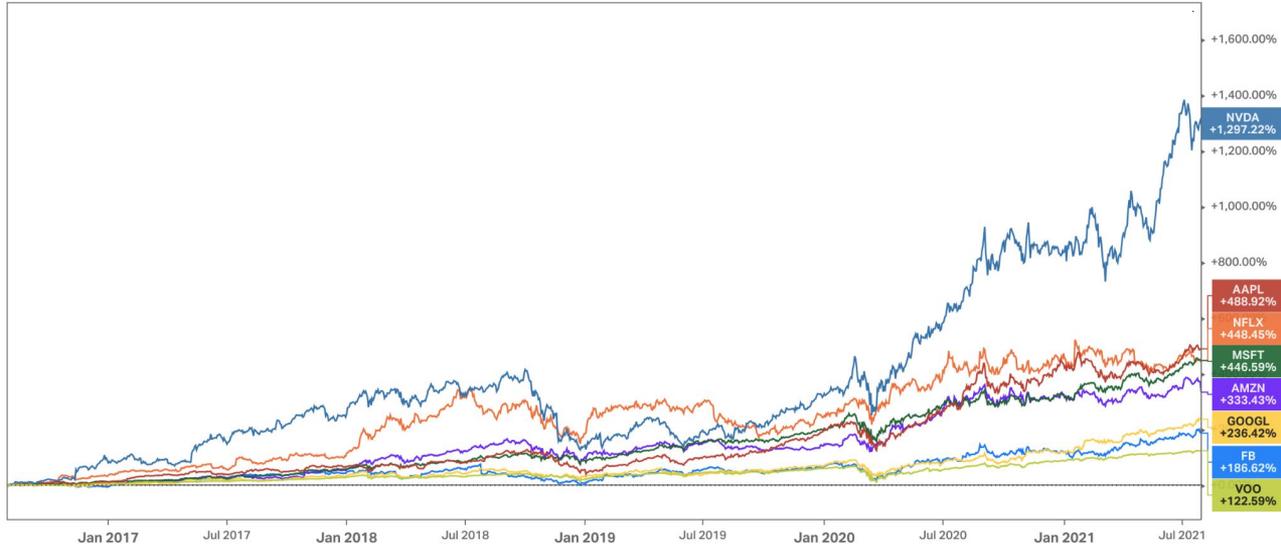
Big Tech Company / "FANGMAN"	Historical 10-Year Annualized Return, As of August 31, 2021
Facebook (\$FB)	+24.64% (Historical 5-Year Annualized Returns because \$FB went public via IPO in May 2012)
Amazon (\$AMZN)	+32.05%
Netflix (\$NFLX)	+32.72%
Google / Alphabet (\$GOOGL)	+20.38%
Microsoft (\$MSFT)	+28.11%
Apple (\$AAPL)	+27.62%
NVIDIA (\$NVDA)	+52.41%
Vanguard's S&P 500 Index ETF (\$VOO)	+16.31%

Data Source: Morningstar. Any stock, options or futures symbols, companies or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.



Historical FANGMAN Stock Price Performance has been Substantial

d Historical Cumulative Performance Return of FANGMAN Companies in the Past 5 Years



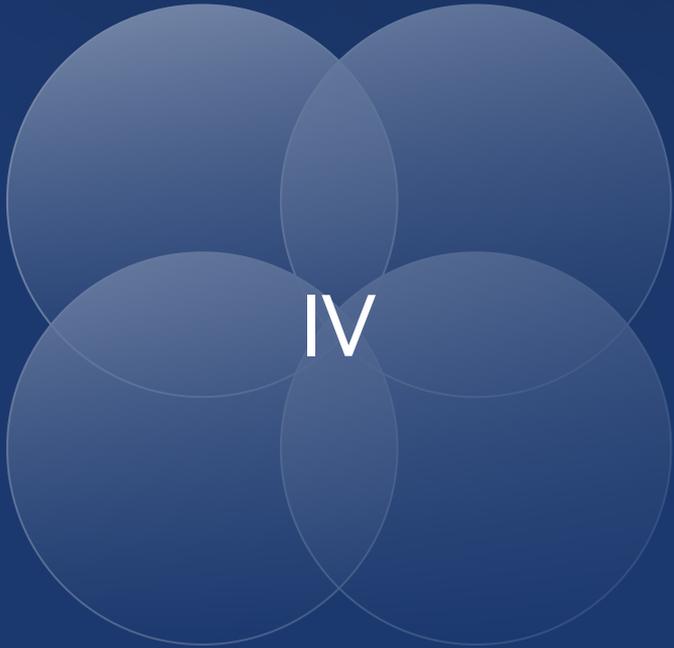
Data Source: Koyfin. Any stock, options or futures symbols, companies or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.



Historical Stock Price Drawdowns for FANGMAN Companies

Big Tech Company / "FANGMAN"	Number of Price Drawdowns that Were -10% or More Severe from January 2013-July 2021
Facebook (\$FB)	7
Amazon (\$AMZN)	5
Netflix (\$NFLX)	6
Google / Alphabet (\$GOOGL)	5
Microsoft (\$MSFT)	3
Apple (\$AAPL)	6
NVIDIA (\$NVDA)	2
Vanguard's S&P 500 Index ETF (\$VOO)	3

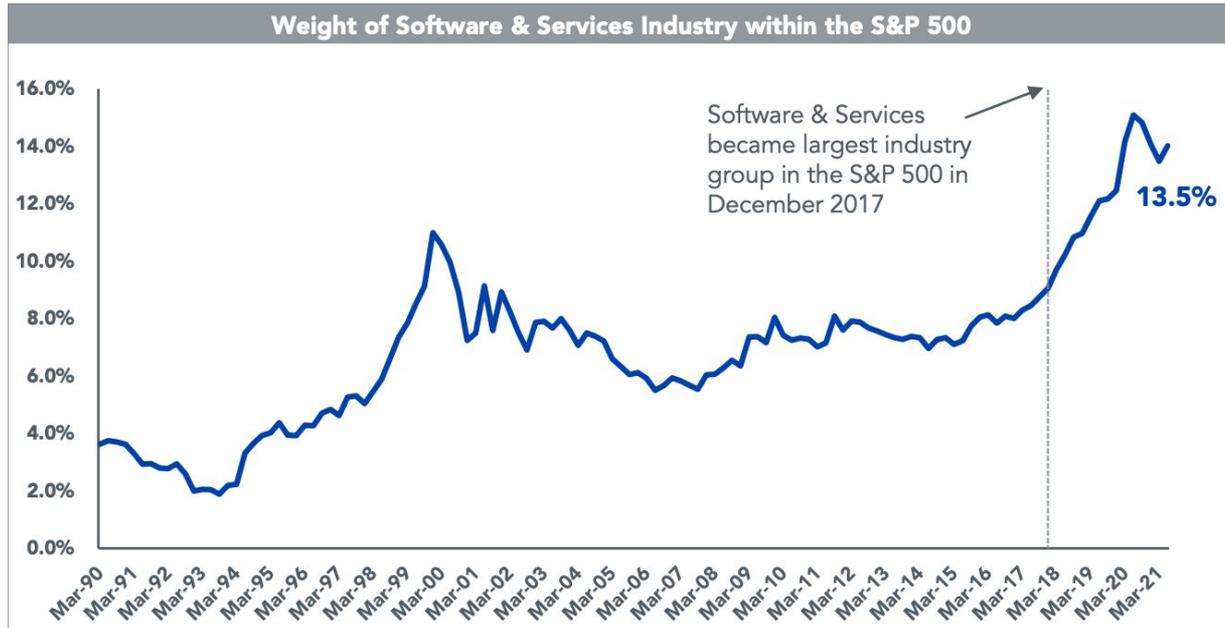
Data Source: Portfolio Visualizer. Any stock, options or futures symbols, companies or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.



Performance of Technology Index Funds

- Technology index funds have delivered better performance than the S&P 500 and Dow Jones over the past 10 years.
- WCLD and other software & tech ETFs have been popular methods for investors in achieving index exposure to cloud computing & software companies.
- Higher compounded returns lead to higher investment multiples. Companies with higher revenue growth rates have historically experienced higher stock price appreciation.

Software Industry is Becoming a Greater % Share of the S&P 500 Index



Source: WisdomTree. As of 6/30/2021. Subject to change

¹The weight of the Software & Services industry within the S&P 500 Index is currently 13.5% of the index's total weight. You cannot invest directly in an index.

Data Source: WisdomTree. Any stock, options or futures symbols, companies or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.

Source Link: https://www.wisdomtree.com/-/media/us-media-files/documents/resource-library/presentations/wisdomtree_wcld_presentation.pdf

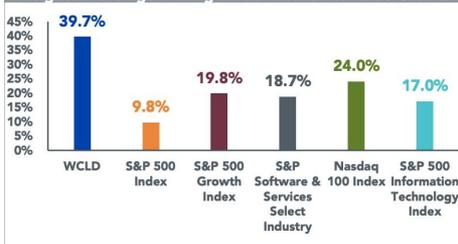


WCLD Holdings Have Higher Revenue Growth than S&P 500 Holdings

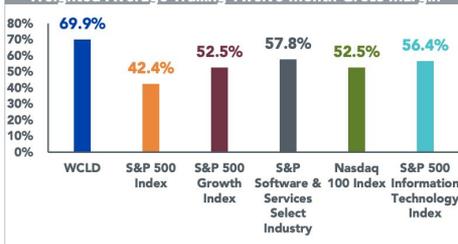
WisdomTree Cloud Computing Fund (WCLD) Fundamentals: Robust Growth and Efficiency

WCLD seeks to track the price and yield performance of the BVP Nasdaq Emerging Cloud Index before fees and expenses

Weighted Average Trailing-Twelve Month Revenue Growth



Weighted Average Trailing-Twelve Month Gross Margin



Weighted Average Trailing-Twelve Month Free Cash Flow



Weighted Average Trailing-Twelve Month Efficiency Score



Sources: WisdomTree, Bessemer Venture Partners, FactSet, S&P Global as of 6/30/2021. Weighted average fundamentals calculated as the sum product of constituent weight and fundamentals. Please note that the metrics calculated for WCLD predate the fund's inception date because they are trailing metrics specific to each company held in WCLD as of 6/30/2021. Past performance is not indicative of future results. You cannot invest directly in an index. The Fund metrics are derived from the fund's underlying securities compared and should not be considered reflective of any Fund performance. In addition, favorable fund metrics may not translate to favorable fund performance.

Data Source: WisdomTree. Any stock, options or futures symbols, companies or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.

Source Link: https://www.wisdomtree.com/-/media/us-media-files/documents/resource-library/presentations/wisdomtree_wclد_presentation.pdf



Technology Index Funds have Delivered Strong Historical Performance

Ticker Symbol & Fund Name	Historical 10-Year Annualized Return, As of August 31, 2021
VGT: Vanguard Information Technology ETF	+23.28%
IGV: iShares Expanded Tech Software Sector ETF	+23.03%
FDN: First Trust Dow Jones Internet Index ETF	+22.63%
PSJ: Invesco Dynamic Software ETF	+21.14%
DIA: SPDR Dow Jones Industrial Average ETF	+14.34%



Diversity in Software Companies Can Generate Strong Returns

Top 5 Holdings for VGT: Vanguard Information Technology ETF	Top 5 Holdings for IGV: iShares Expanded Tech Software ETF	Top 5 Holdings for FDN: First Trust Dow Jones Internet ETF	Top 5 Holdings for PSJ: Invesco Dynamic Software ETF	Top 5 Holdings for DIA: SPDR Dow Jones Industrial Average ETF
Apple (\$AAPL)	Salesforce (\$CRM)	Amazon (\$AMZN)	HubSpot (\$HUBS)	UnitedHealth (\$UNH)
Microsoft (\$MSFT)	Microsoft (\$MSFT)	Facebook (\$FB)	Intuit (\$INTU)	Goldman Sachs (\$GS)
NVIDIA (\$NVDA)	Adobe (\$ADBE)	Alphabet (\$GOOGL)	Oracle (\$ORCL)	Home Depot (\$HD)
Visa (\$V)	Intuit (\$INTU)	PayPal (\$PYPL)	Microsoft (\$MSFT)	Microsoft (\$MSFT)
PayPal (\$PYPL)	Oracle (\$ORCL)	Salesforce (\$CRM)	Cerner (\$CERN)	Salesforce (\$CRM)

Data Source: Morningstar, as of September 26, 2021. Any stock, options or futures symbols, companies or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.



Investing in the American Software Industry Has Historically Been More Lucrative than Speculating on the General State of the American Economy

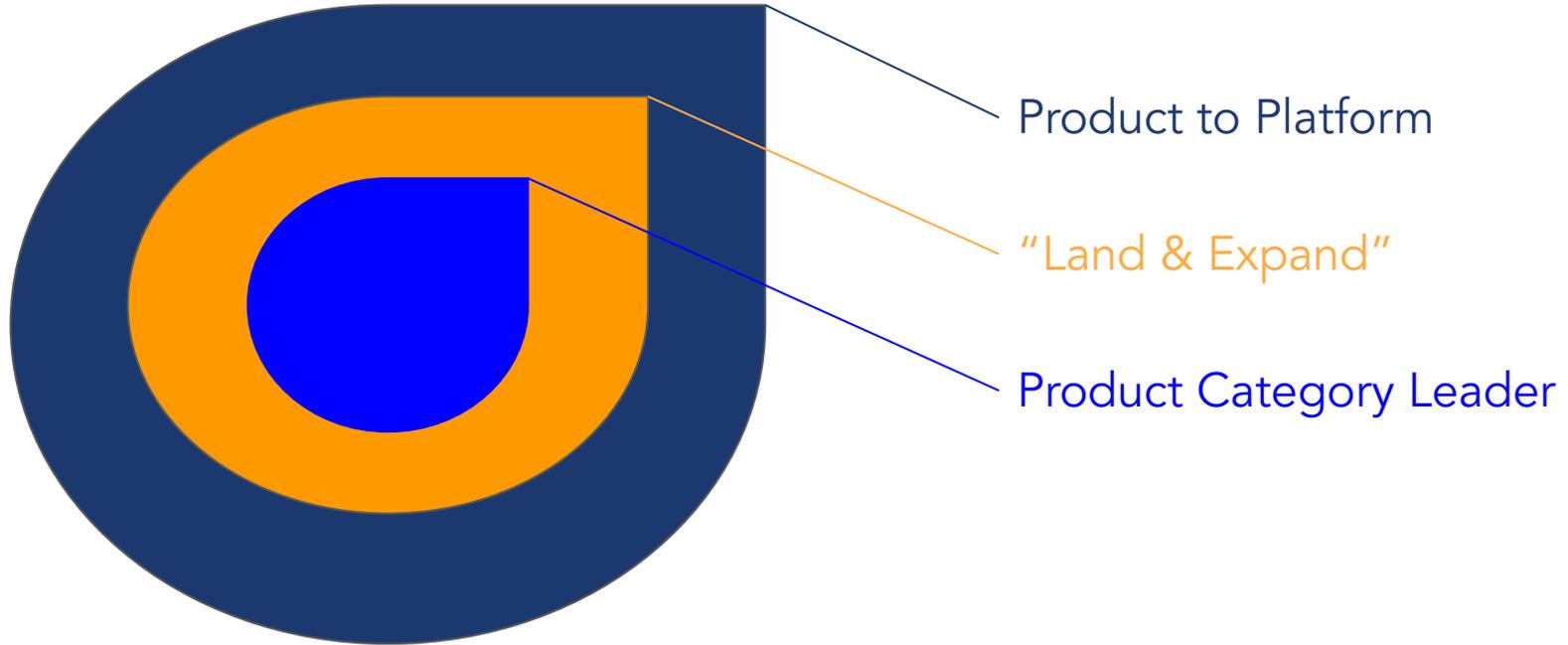




Business Moat with a Strong Competitive Advantage

- We describe the business strategy called “concentric circles with excellence & expansion”.
- Business models with a product differentiation, a business moat with high revenue growth & cash flows, and strong competitive advantages are advantageous to investors.

Business Model: "Concentric Circle with Excellence & Expansion"



3 Traits to Understand if a Business Has a Moat with a Competitive Edge



Competitive Win Rate &
Strong Customer Retention



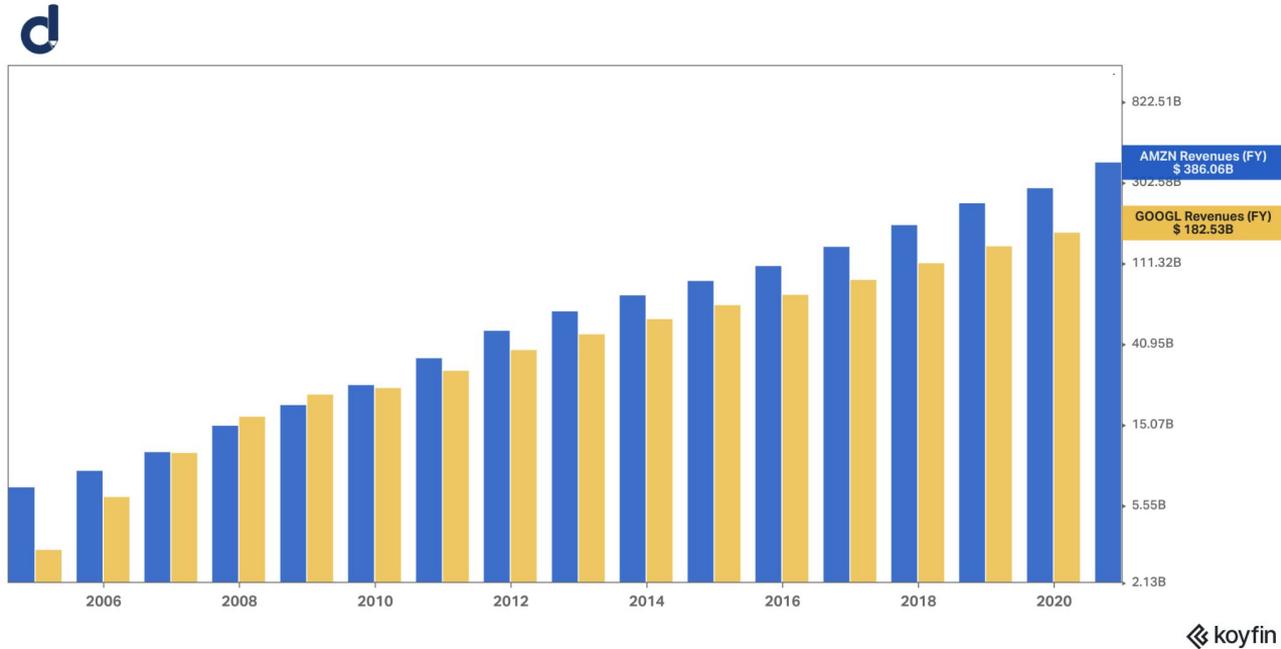
Pricing Power for
Advantaged Business Models



Returns on
ROE & ROIIC



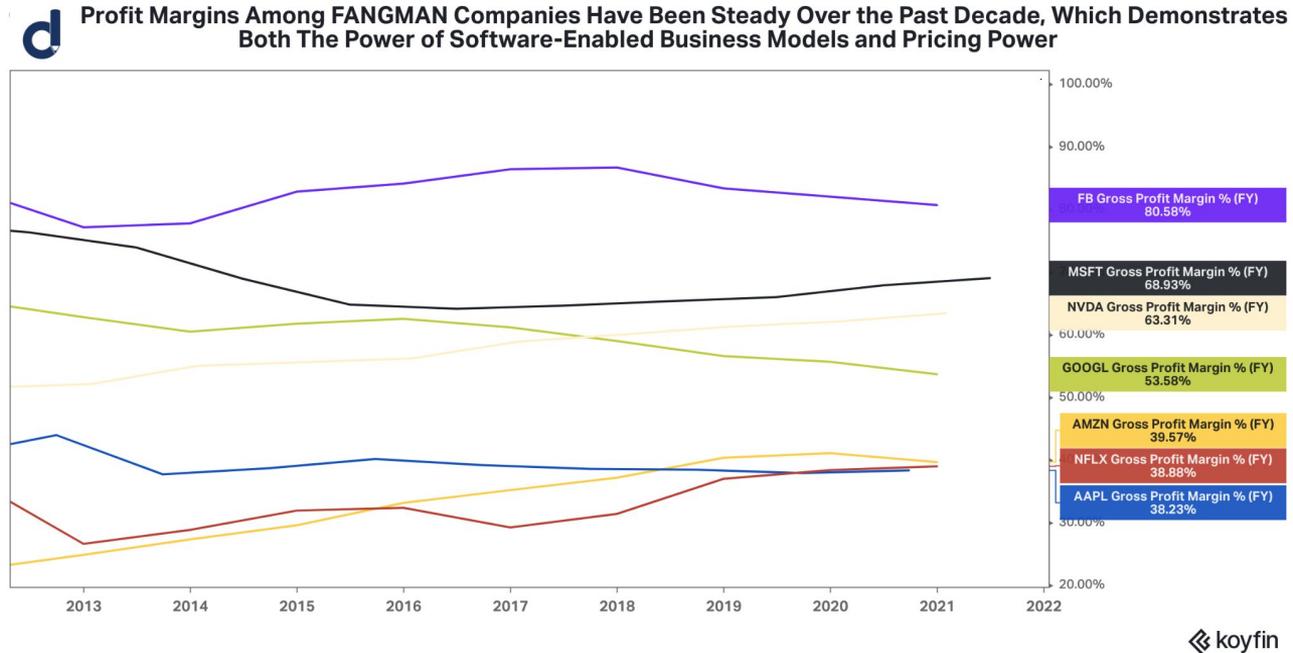
Amazon & Alphabet: Consistent Revenue Growth



koyfin



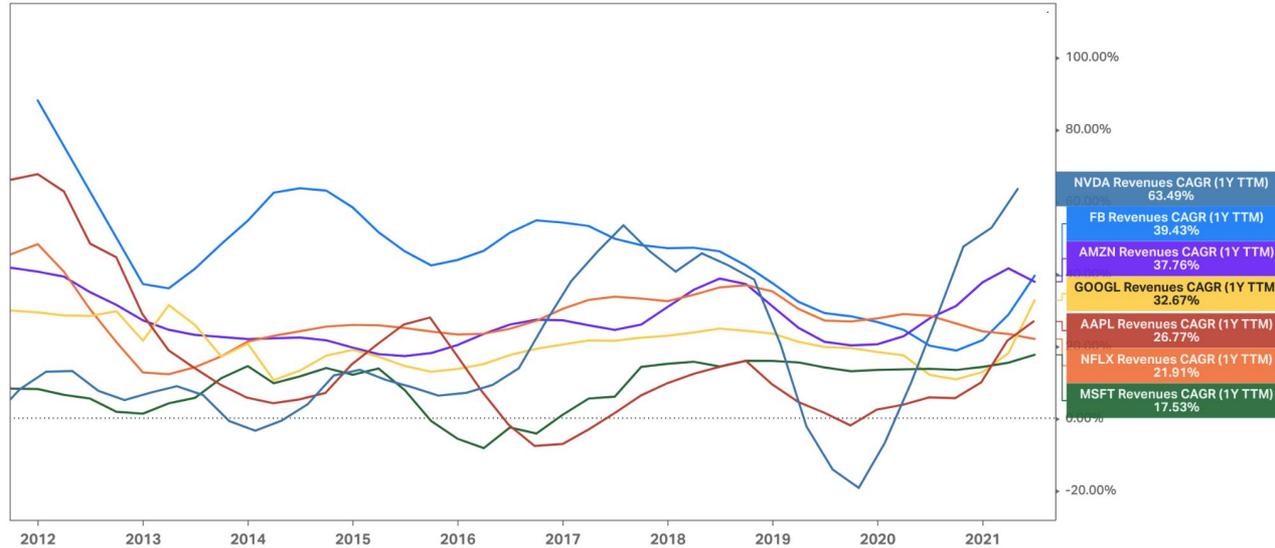
Steady Profit Margins for FANGMAN Companies Over the Past 10 Years





Tech is Needed More than Ever Before: Historically, FANGMAN Revenue Growth Rates Are Typically Positive & Accelerated During the Coronavirus Crisis

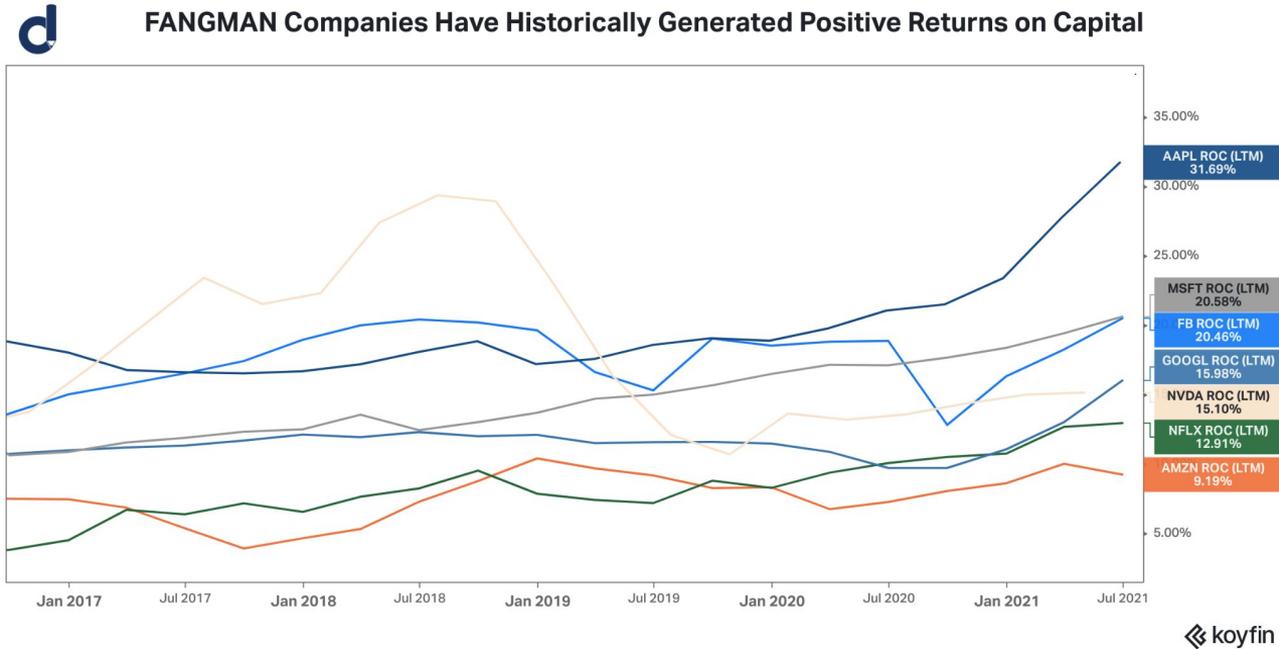
d Positive Revenue Growth Rates Are Historically Common Among FANGMAN Companies



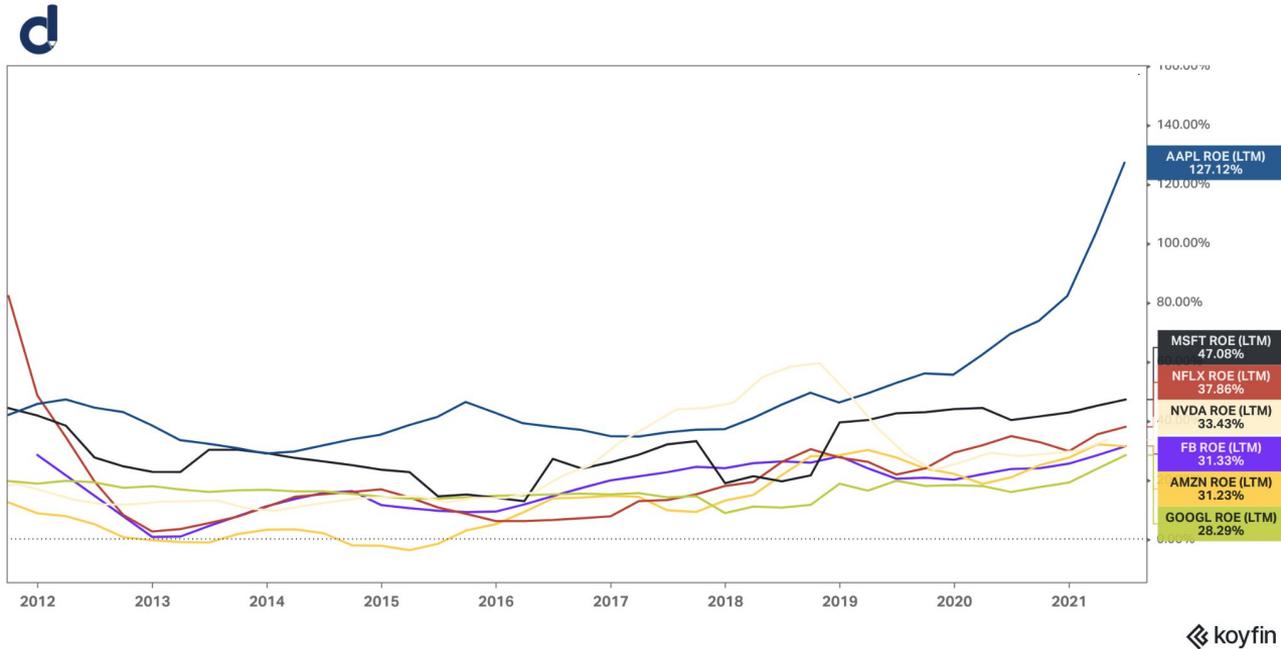
 koyfin



Strong Returns on Capital Demonstrate Advantaged Business Models for FANGMAN Companies



Strong ROE Contributes to Strong Returns to FANGMAN Shareholders



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Opinion: Why are FANGMAN Companies Undervalued with Significant Investment Upside Potential?

1

Antitrust Regulatory Concerns

2

Concessions on Acquisitions & Regulatory Barriers to Large M&A

3

Significant Consumer Surplus

4

Low Dividend Yields

5

Lower Growth Rates Compared to High-Growth Cloud Software Startups

6

High P/E Ratios



6 Metrics to Evaluate Internet Scale Businesses

1

Revenue Growth Rate

2

% of Revenue that is
Recurring Revenue

3

Revenue Growth Endurance

4

Contribution Margin

5

Total Addressable Market &
Market Share

6

Free Cash Flow Per Share

Summary

- 1 It is abundantly clear that software companies benefit from a significant secular tailwind. In aggregate, software companies continue to grow in revenue, business size, and in relative market share within the S&P 500.
- 2 FANGMAN companies collectively reaching a combined \$10 trillion in market cap represents a significant milestone and demonstrates the size, scale, and scope of Big Tech companies. In aggregate, FANGMAN companies continue to grow revenues, generate significant cash flows, maintain high returns on capital, and innovate at scale.
- 3 Exponential growth is a powerful force. Higher compounding returns lead to higher investment multiples over time. Internet scale businesses have been routinely under-estimated in the size of their total addressable markets (TAMs) by most investors. Internet scale businesses can expand their TAM across various sub-sectors and industries, continue to find specific niches to add value, and go nationwide and global in distribution.
- 4 Many technology companies followed the successful business strategy called “concentric circles with excellence and expansion”. This strategy emphasizes hyper-focus on building one product, become a dominant market leader in the product category, and then earning the right to “land and expand”.
- 5 We are of the opinion that Big Tech companies continue to be undervalued. Big Tech and FANGMAN companies continue to be an enormous net positive for stakeholders by generating significant surplus to consumers, significant collective wealth for employees, significant corporate revenue growth and cash flows, and significant shareholder value.

Resources



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